

## Senate Bill No. 1945

### CHAPTER 419

An act to repeal and add Section 22360 of the Education Code, relating to the State Teachers' Retirement System.

[Approved by Governor August 28, 1998. Filed with  
Secretary of State August 31, 1998.]

#### LEGISLATIVE COUNSEL'S DIGEST

SB 1945, Karnette. State Teachers' Retirement System: benefits.

The State Teachers' Retirement Law authorizes a member home loan program.

The bill would delete the present home loan program, establish a new program including a 100% financing member home loan program, and require the Teachers' Retirement Board to adopt regulations governing the new program.

*The people of the State of California do enact as follows:*

SECTION 1. Section 22360 of the Education Code is repealed.

SEC. 2. Section 22360 is added to the Education Code, to read:

22360. (a) Notwithstanding any other provision of law, the board may pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions in this state to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes in this state.

(b) For the purpose of this section, the term "member" means any person who is receiving, or is entitled to receive, a retirement allowance funded by this system, notwithstanding any vesting requirement and without regard to present eligibility to retire.

(c) The board shall adopt regulations governing the program that shall, among other things, provide:

(1) That home loans be made available to borrowers, including members, for the purchase of single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.

(2) That the recipients of the loans occupy the homes as their principal residences in accord with rules and regulations established by the board.

(3) That the home loans shall be available only for the purchase or refinance of homes in this state.

(4) That the amount and length of the loans shall be pursuant to a schedule periodically established by the board that shall provide a loan-to-value ratio of: (A) for the first loan, except for three-family dwellings and four-family dwellings, a maximum of 95 percent of the first loan; (B) for the first loan on three-family dwellings and four-family dwellings, a maximum of 90 percent of the first loan; and (C) for each additional loan, a maximum of 95 percent of each additional loan. The portion of any loan exceeding 80 percent of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A (commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent of the market value of the property together with improvements thereon.

(5) That there may be prepayment penalties assessed on the loans in accordance with rules and regulations established by the board.

(6) That the criteria and terms for its loans shall be consistent with the financial integrity of the program and the sound investment of the retirement fund.

(7) Any other terms and conditions as the board shall deem appropriate.

(d) It is the intent of the Legislature that the provisions of this section be used to establish an investment program for residential mortgages, including assisting members in obtaining homes in this state. The Legislature intends that home loans made pursuant to this section shall be secured primarily by the property acquired and shall not exceed the fair market value of the property acquired.

(e) The board shall include in any investment program established pursuant to this section a procedure whereby a borrower may obtain 100-percent financing for the purchase of a single-family dwelling unit in accordance with the following criteria:

(1) The member shall obtain one loan with a loan-to-value ratio not to exceed 95 percent secured by the purchased home and a second personal loan with a loan-to-value ratio not to exceed 5 percent secured by a portion of the accumulated contributions and vested accrued benefits in the member's individual account. The 5 percent personal loan shall only be used for the purchase of the member's principal residence and not for a loan to refinance.

(2) The loan secured by the purchased home shall be consistent with the loan-to-value ratios specified in the schedules established pursuant to this section.

(3) In no event shall the loan amount exceed three hundred fifty thousand dollars (\$350,000).

(4) In no event may the personal loan secured by the accumulated contributions and vested accrued benefits in the member's individual account exceed the lesser of 50 percent of the current value amount of the accumulated contributions, or fifty thousand dollars (\$50,000).

(5) The pledge of security under this section shall remain in effect until the loan is paid in full.

(f) In the event of a default on the personal loan secured by the member's contributions as authorized by this section, the board may deduct an amount from the member's contributions on deposit and adjust the member's accrued benefit, up to the amount pledged as security, prior to making any disbursement of retirement benefits.

(g) The secured personal loan permitted under this section shall be made available only to currently employed members who meet eligibility criteria the board deems advisable.

(h) If the member is married at the time the home is purchased with a personal loan secured by the member's contributions as authorized by this section, then the member's spouse shall agree in writing to the pledge of security, as to his or her community interest in the amount pledged regardless of whether title to the home is in joint tenancy.

(i) The pledge of security under this section shall take binding effect. In the event of default, the accumulated contributions in the member's account shall be reduced as necessary to recover any outstanding loan balance, not to exceed the pledge amount.

(j) Appropriate administrative costs of implementing this section shall be paid by the members utilizing this section. Those costs may be included in the loan amount.

(k) Appropriate interest rates shall be periodically reviewed and adjusted to provide loans to borrowers consistent with the financial integrity of the home loan program and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be below current market rate.

(l) The board shall administer this section under other terms and conditions it deems appropriate and in keeping with the investment standard. The board may adopt procedural guidelines as necessary for its administration of this section and to assure compliance with applicable state and federal laws.

(m) This section shall be known as, and may be cited as, the Dave Elder State Teachers' Retirement System Home Loan Program Act.